

DDI- 06363-84

7 November 1984

DDI Chrono

MEMORANDUM FOR: Director of Central Intelligence

VIA: Deputy Director of Central Intelligence
Executive Director
Deputy Director for Intelligence

FROM: Deputy Director of Global Issues

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SUBJECT: West European Natural Gas

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1. During a recent conference I attended on natural gas, I was struck by the prevailing sentiment of West Europeans regarding additional purchases from the Soviet Union. While no participant stated explicitly that more Soviet gas would be purchased by West European utilities, the tone of the conference discussions left me with the distinct impression that the West Europeans do not take seriously their commitment to the United States to forego a second Soviet pipeline. Demand forecasts presented at the conference were very pessimistic and none of the gas purchasers felt a need to pay premium prices for secure sources of supply. As a result, there was little sentiment or interest in pursuing development of Norwegian gas even though the Norwegians themselves took a more aggressive marketing posture at the conference. Other non-Soviet suppliers such as Algeria and Qatar have also been cast aside as viable options to the Soviets in the present buyers market.

2. The market setting and West European attitudes bode well for Moscow in the longer term as we pointed out in our recent assessment, "Natural Gas Markets: Growing Soviet Opportunities." Not only do the Soviets have the gas to deliver and the pricing flexibility needed to penetrate markets, Moscow can offer the promise of tie-in equipment sales and prompt delivery. The Soviets can probably gear up a new export line in a matter of two-to-three years compared with lead times of five-to-seven years for North Sea projects.

3. In sum, I think the West Europeans have every intention of turning to the Soviets for more gas in the 1990s despite what they have told the Administration. The present weak market that, for the moment, precludes development of alternative supplies will simply make it easier for them to argue later that they have no choice but to go the Soviet route.

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